



Is it tough keeping up?

What does TKU look like
in the 21st century?

I have to admire the commitment, enthusiasm and skill of the lay trustees with whom I work. They make strenuous efforts to understand the issues and the decisions they are being asked to make. Often they will ask the advisers “this is probably a silly question but...” yet it is nearly always a highly perceptive question. Of course, there are trustees who, for a variety of reasons, struggle to allocate the necessary time to the role, and some who contribute little, but in my experience they are very much in the minority.

The responsibilities of a trustee are increasing, and the Pensions Regulator has steadily raised his expectations of what trustees should know. The online Trustee Toolkit – which is excellent training – is a must for new trustees, and there are specific trustee courses run by the PMI, as well as PLSA (or NAPF in old money), consulting firms and legal advisers. These come at a cost, and although some investment managers run free seminars, care must be taken that the content and level of learning is appropriate.

The Award in Pension Trusteeship (APT) examination is a qualification for trustees run by the PMI, and is on the Regulator’s indicative syllabus. It provides formal recognition of a trustee’s knowledge and understanding, and there is a programme for Continuous Professional Development. Both can be recommended to a trustee aspiring to do the best job for his or her scheme’s members.

A good level of Trustee Knowledge and Understanding (TKU) is the regulator’s minimum requirement for all trustees. It should be a regular topic at trustee meetings, but it is invariably tabled towards the end of the meeting when trustees record what training they have or haven’t done since the last meeting. I would like to see the emphasis switched from the rear view mirror to the windscreen, so the learning can concentrate on known future events such as the valuation or an investment strategy review. The advisers do a good job in this area when asked, and offer an added benefit as they can tailor the training to the specific scheme.

We should not forget that there are now 3 million active members of defined contribution (DC)

schemes compared to 1.8m in defined benefit (DB) schemes, and this difference will grow over time. The regulator is determined to raise standards of governance, and the introduction of a DC Code is already challenging trustees. One of the requirements is ‘good member outcomes’, so trustees of DC schemes face a different challenge in that it is the scheme members who take all the risk rather than the employer. Poor investment performance will severely damage those outcomes, and because 90% of members choose the default option (or don’t make any choice), they leave the investment choice to the trustees. Selection of the default option needs extreme care, and investment training is a must.

At retirement, the choices open to DC members have changed dramatically since April 2015, when the Government announced that DC pots could be fully cashed in – although amounts above the 25% tax-free are subject to tax. If the trustees decide not to allow full encashment from the scheme, members can usually transfer their entitlement to a personal pension plan, where they can cash in some or all of it, or they can choose an income drawdown facility. The question for trustees is whether the default investment strategy should target a cash sum at retirement (for payment or for a transfer value) or whether to retain the customary lifestyle option which targets 25% cash and 75% bonds, and which is ideal for purchasing an annuity. It is an almost impossible decision to get right for every member, and this is why DC is fast becoming a complex and time-consuming area of expertise for trustees. ►



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DB assets, on the other hand, are 25 times larger, and will require trustees to run schemes for many more decades, even though many are closed to new entrants and to future pension accrual. They may have a DC section for current and new employees, or there may be a separate trust-based DC scheme. Hence trustees are likely to need a knowledge base which includes DB and DC.

How then is a lay trustee expected to keep up with all this learning, as well as keeping up with his day job? Surely there is too much knowledge for an individual trustee to assimilate? With trustees of small schemes spending an average of nine days a year on their duties, and 50% of them spending less than five days, it is easy to understand why the Regulator is now trying to paint a picture of what a trustee in the 21st century should look like.

In my opinion, less attention needs to be paid to how much each individual knows, and more to the output of the trustee board as a whole. For me, trusteeship is a team effort, and perhaps we should try to maximise the value of the whole board's achievement? At the time of writing, my newly promoted football team (Watford) is challenging for a place in the top five of the Premier League. Unlike Manchester City, they don't have the individual skills of the world's best players at their disposal, but each player has a lot to offer, and their success has come from the way they use the balance of those skills for the benefit of the team. Of course, football moves at a faster pace than pensions, and Watford may not be in the top five when this article appears in PMI News, but I know they will still be working as a team to achieve good outcomes.

My point is therefore that the same approach will work for pension trustee boards. If we do more at board level, I think it will encourage individuals to achieve more, rather than just to learn more facts. A number of the larger schemes have embarked on Trustee Effectiveness projects to assess the combined level of knowledge on key topics, and to work out

how they can improve board effectiveness. They help trustees to identify those areas of individual knowledge that they can build on, as well as to decide on any new training they might consider. This will improve the overall balance of board skills. There are many sophisticated and expensive techniques on the market, but a simple and effective model can be put together by advisers for the smaller schemes.

In summary, I believe that lay trustees need to be encouraged to learn by working more closely with their trustee colleagues, rather than by individual studying. I think professional trustees have a role here (I would say that, I suppose) as they can use their experience from other schemes to explain the consequences of different decisions. Academic education has its place, and I still believe in qualifications, online training, conferences and seminars but good decisions and good outcomes matter most.

It's tough keeping up, but let's try to achieve even higher standards so that the work trustees do is valued, and we can attract more trustees to keep schemes running well in the 21st century. ■